



# **SUPPLEMENTARY INFORMATION**


## **Appendix CL- (i)**

### **Client Asset Protection: Agreed Upon Procedures**



**Client Asset Protection: Agreed Upon Procedures  
History**

<b>Change Date</b>	<b>Description of Changes</b>
07/2008	Initial Launch

 <b>Central Bank of Bahrain Rulebook</b>	<b>Volume 4: Investment Business</b>
<b>Appendix CL – (i): Client Asset Protection: Agreed Upon Procedures</b>	

## AGREED UPON PROCEDURES REPORT

**[INVESTMENT FIRM COMPANY LIMITED]**

**Financial year ended 31 December 20XX**

**Report to the CBB pursuant to Rule CL-1.5.2**

<i>Sr. No.</i>	<i>Procedure</i>
	<i>Client Asset Protection Rules (CL 1.1)</i>
	<i>Segregation of Client Asset</i>
1	We will enquire and obtain evidence on a sample basis that the Company holds the client assets separate from its own (CL1.1.1), except to the extent permitted by the rules under ( Paragraph CL-1.1.2)
2	Where the Company does not hold the client assets separate from its own as permitted by the rules under ( Section CL-1.1.2) will enquire and obtain evidence on a sample basis that: <ul style="list-style-type: none"> <li>a. the client has given an express consent in writing;</li> <li>b. the use of the client assets is restricted to the terms agreed by the client; and</li> <li>c. the document in which that client's consent is requested by the company gives clear information to the client on the obligations and responsibilities of the Company and/or of the clients for whose account the Company has been allowed to use the client's financial instruments, with respect to the use of the financial instruments (including the terms for the restitution of the financial instruments) and the risks involved.</li> </ul>




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<i>Sr. No.</i>	<i>Procedure</i>
3	<p>We will enquire and obtain evidence on a sample basis that the Company has communicated to its clients in writing no later than 10 business days from the initial transaction date, as a minimum, the following information: (CL-1.1.3 and CL-6.1.2)</p> <ol style="list-style-type: none"> <li>the basis and terms governing the way in which the client assets will be held;</li> <li>that the client is subject to the protection conferred by the client asset protection rules and as a consequence: <ol style="list-style-type: none"> <li>the client assets will be held separately from assets belonging to the Company; and</li> <li>in the event of the Company's insolvency, winding-up, or other similar event, the client's assets will be subject to the client asset distribution rules.</li> </ol> </li> <li>whether interest is payable to the client and, if so, the terms and frequency of such payments;</li> <li>notwithstanding that the client assets will benefit from the protections conferred by the client asset protection rules, the client will still be taking unsecured credit risk on any bank or third party with whom the company places the client assets that it holds;</li> <li>if applicable, that the client assets may be held in a jurisdiction outside the remit of the CBB and that the market practices, insolvency and legal regimes applicable in that jurisdiction may differ from the regime applicable in the CBB;</li> <li>if applicable, that the Company holds or intends to hold the client money in a client bank account with a designated bank or in a third party account with an eligible third party which is in the same group as the Company and the identity of the designated bank or eligible third party concerned;</li> <li>if applicable, details about how any client money arising out of Islamic financial business is to be held; and</li> <li>details of any claims or set offs which the Company may have in client assets held on behalf of the client in satisfaction of a default by the client or otherwise, and any rights which the Company may have to closeout or liquidate contracts or positions in respect of any of the client assets, without the client's prior instruction or consent.</li> </ol>
4	<p>If the Company holds or controls client assets which are not subject to the client asset provisions in an arrangement with a market counterparty, we will enquire and obtain evidence on a sample basis that the Company has disclosed to that market counterparty in writing that: (CL-1.1.4)</p> <ol style="list-style-type: none"> <li>the protections conferred by the client asset protection rules do not apply to such client money;</li> <li>as a consequence of (a), such client assets may be mixed with money belonging to the Company, and may be used by the Company in the course of the Company's business; and</li> <li>in the event of insolvency, winding up of the Company or other distribution event stipulated by the CBB: <ol style="list-style-type: none"> <li>in the case of a Bahraini company, such client assets will be subject to and distributed in accordance with the CBB client money distribution rules; and</li> <li>in the case of overseas company, such client assets will be subject to a regime which may differ from the regime applicable by the CBB.</li> </ol> </li> </ol>
	<i>Client Money</i>
5	<p>We will enquire and obtain evidence that the Company holds the client money in a client bank account. (CL-1.1.6)</p>




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6	<p>We will enquire and obtain evidence that the client's bank accounts are only opened with banks licensed to do business in the Kingdom of Bahrain, after being subject to due diligence by the Company. For Islamic companies we will enquire and obtain evidence that they only hold client bank accounts with Islamic banks licensed to do business in the Kingdom of Bahrain. (CL-1.1.8)</p> <p>For the due diligence we will enquire and obtain evidence that the Company is taking reasonable steps to establish that the bank is appropriate considering, among other factors, the following: (CL-1.1.9)</p> <ol style="list-style-type: none"> <li>whether it is a duly licensed bank in good regulatory standing;</li> <li>the capital adequacy of the bank;</li> <li>the amount of client money to be placed, as a proportion of the bank's capital and deposits; and the credit rating of the bank, if available.</li> </ol>
	<i>Transfer of money to eligible third parties</i>
7	<p>We will enquire and obtain evidence on a sample basis that the Company only pays, or permit to be paid, client money into an account with a person who is not a client bank account if that person is an eligible third party. (CL-1.1.10) [Eligible third parties are recognised exchanges, clearing houses and third party intermediaries (such as brokers), that are duly authorised or licensed by the appropriate regulatory oversight body to conduct investment activities. (CL-1.1.11)]</p>
8	<p>If client money has been paid to an eligible third party we will check on a sample basis that the investment firm licensee only transferred the client money:</p> <ol style="list-style-type: none"> <li>for the purpose of a transaction for a client through or with that eligible third party; or</li> <li>to meet a client's obligations to provide collateral for a transaction;</li> </ol> <p>In the case of a retail client, we will check on a sample basis that client has been notified in writing that the client money may be transferred to the other person.</p>
9	<p>If client money has been paid to an eligible third party we will enquire and obtain evidence that the Company as a minimum, included the following in its assessment of the suitability of an eligible third party before allowing it to hold or control client money: (CL-1.1.13 and CL-1.1.16):</p> <ol style="list-style-type: none"> <li>the eligible third party's credit rating, capital and financial resources;</li> <li>the regulatory and insolvency regimes of the jurisdiction in which the eligible third party is located;</li> <li>the eligible third party's reputation;</li> <li>the eligible third party's regulatory status and history; and</li> <li>the other members of the eligible third party's group and their activities.</li> </ol>
10	<p>We will enquire and obtain evidence that the Company did not hold money other than client money in a client bank account unless it is: (CL-1.1.14)</p> <ol style="list-style-type: none"> <li>a minimum sum required to open the account or to keep it open;</li> <li>money temporarily held in the account in accordance with the mixed remittance rule stated in CL-1.1.16; or</li> <li>interest credited to the account which exceeds the amount due to clients as interest and which has not yet been withdrawn by the company.</li> </ol>
11	<p>We will enquire and obtain evidence on a sample basis that if the Company received a mixed remittance (that is part client money and part other money) it did the following: (CL-1.1.16)</p> <ol style="list-style-type: none"> <li>paid the full sum into a client bank account; and</li> <li>paid the money that is not client money out of the client bank account within one business day.</li> </ol>

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12	Where client money is kept in client transaction accounts with intermediate brokers, settlement agencies and over the counter (OTC) counterparties we will enquire and report what steps the Company takes to ensure that these are not excessive. (CL-1.1.17)
	<i>Reconciliation</i>
13	We will enquire as to whether a system has been implemented to perform the reconciliations of both client bank accounts and eligible third party accounts in which client money is held, and obtain evidence on a sample basis that these reconciliations have been carried out on a regular basis (but at a minimum, on a monthly basis as at the last business day of each calendar month) for the period under review, sufficient to ensure the accuracy of its records (CL-1.1.18).
14	We will enquire and obtain evidence that the reconciliations mentioned in point 13 were performed within 10 business days from the date to which the reconciliation relates. (CL-1.1.19)
15	We will enquire and obtain evidence that a reconciliation between the individual ledger balances and client bank accounts/third party balances was prepared (CL-1.1.20).
16	We will enquire and obtain evidence on a sample basis that the Company had investigated and, where applicable, took corrective action as soon as is practicable in respect of unresolved differences, shortfalls and excess balances in respect of reconciliations. (CL-1.1.21)
	<i>Stock Lending Rules (CL 1.2)</i>
17	We will enquire and obtain evidence that the consent of the CBB and the client were obtained before the Company undertook or otherwise engaged in stock lending activity with or for a client. (CL-1.2.1)
18	If a safe custody investment belonging to a retail client was used for stock lending activity, we will enquire and obtain evidence that the Company had ensured that: (CL-1.2.2) <ul style="list-style-type: none"> <li>a. relevant collateral is provided by the borrower in favour of the client;</li> <li>b. the current realizable value of the safe custody financial instrument and of the relevant collateral was monitored daily; and</li> <li>c. the Company provided relevant collateral to make up the difference where the current realizable value of the collateral fell below that of the safe custody financial instrument, unless otherwise agreed in writing by the client.</li> </ul>
19	We will enquire and obtain evidence that if safe custody financial instruments of more than one client were held together, none of those safe custody financial instruments were used for a stock lending activity unless: (CL-1.2.3) <ul style="list-style-type: none"> <li>a. all of those clients have consented to their safe custody financial instrument being used for that activity; or</li> <li>b. the Company has adequate systems and procedures in place to ensure that only safe custody financial instruments belonging to clients who have given their consent are used for stock lending activity</li> </ul>
	<i>Client Reporting (CL 1.3)</i>
20	We will enquire whether the Company sent statement of all client assets held by the Company to its client at least once a year or as often as agreed with that client. (CL-1.3.1).
21	We will enquire and obtain evidence on a sample basis that the statements of client assets referred to in point 20: (CL-1.3.2) <ul style="list-style-type: none"> <li>a. identify any clients' assets which have been provided as collateral;</li> <li>b. identify any client assets which have been lent; and</li> <li>c. show any movement of client assets based on either trade date or settlement date clearly and consistently.</li> </ul>

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	<i>Record Keeping (CL 1.4)</i>
22	We will enquire and obtain evidence as to whether proper records are kept which are sufficient to show and explain the Company's transactions and commitments in respect of its client assets, are made which demonstrate compliance with the provisions of the CBB's Client Assets Module (CL-1.4.1)
23	We will enquire and obtain evidence as to whether the client's records are retained for a period of a minimum of ten years after they were made, unless otherwise required by the law. (CL-1.4.1)
24	We will enquire and obtain evidence as to whether the Company (CL-1.4.2) <ul style="list-style-type: none"> <li>a. checks its record-keeping and client asset procedures regularly; and</li> <li>b. subjects its record-keeping and client asset procedures to an appropriate independent review.</li> </ul>
	<i>Custody Services (CL-2 )</i>
	<i>General Requirements (CL 2.1)</i>
25	We will enquire and obtain evidence that if the Company holds or controls safe custody financial instruments it has systems and controls in place to: (CL-2.1.2) <ul style="list-style-type: none"> <li>a. ensure the proper safeguarding of such safe custody financial instruments;</li> <li>b. ensure that such safe custody financial instruments are identifiable and secure at all times; and</li> <li>c. be able to evidence compliance with the requirements in Section CL-2 to its external auditors and the CBB.</li> </ul>
	<i>Segregation (CL 2.2)</i>
26	We will enquire and obtain evidence that the Company has segregated any safe custody financial instruments from its own financial instruments except to the extent required by law or permitted by Client Assets module. (CL-2.2.1)
	<i>Reconciliation (CL 2.3)</i>
27	We will enquire and obtain evidence on a sample basis that during the period under review the Company prepared a reconciliation of safe custody financial instruments for which it is accountable but which it does not physically hold, with statements obtained from custodians on a monthly basis as minimum. (CL-2.3.1) <p>In the case of dematerialized safe custody financial instruments not held through a custodian, we will enquire and obtain evidence that the reconciliation is performed with statements obtained from the person who maintains the record of legal entitlement.(CL-2.3.1)</p>
28	We will enquire and obtain evidence on a sample basis that during the period of our review the Company, as often necessarily, but no less than every six months (or twice in a period of twelve months but at least five months apart), carried out: <ul style="list-style-type: none"> <li>a. a count of all safe custody financial instruments it physically holds on behalf of clients and reconcile the result of that count with its record of safe custody financial instruments that it physically holds on behalf of its clients;</li> <li>b. a reconciliation between the company's record of client holdings, and the firm's record of the location of safe custody financial instruments. (CL-2.3.2)</li> </ul>
29	We will enquire and obtain evidence on a sample basis that the reconciliations are carried out by a person who is independent of the production or maintenance of the records to be reconciled. (CL-2.3.3)



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<i>Sr. No.</i>	<i>Procedure</i>
	<i>Client Statements (CL 2.4)</i>
30	<p>We will enquire and obtain evidence on a sample basis that the Company notified the client before providing safe custody services, the appropriate terms and conditions which apply to any safe custody services that will be provided to the client. These cover, at a minimum, the following matters, wherever applicable: (CL-2.4.1)</p> <ol style="list-style-type: none"> <li>the registration of the safe custody financial instruments, if these are not registered in the Company name;</li> <li>the extent of the Company's liability in the event of default by a custodian, except that the Company must accept the same level of responsibility to its client for any nominee company controlled by the Company or its affiliated company as for itself and may not disclaim responsibility for losses arising from the fraud, willful default or negligence of the firm;</li> <li>the circumstances in which the Company may realize a safe custody financial instrument held as collateral to meet the client's liabilities;</li> <li>the claiming and receiving of dividends, interest payments and other entitlements accruing to the client;</li> <li>dealing with takeovers, other offers or capital reorganizations and exercising voting, conversion and subscription rights;</li> <li>arrangements for the distribution of entitlements to shares and any other benefits arising from corporate events, where client balances have been pooled;</li> <li>arrangements for the provision of information to the client relating to the safe custody financial instruments which the Company, or its nominee company, holds on behalf of the client;</li> <li>how often a statement of custody assets will be sent to the client and the basis on which the assets shown on the statement are valued;</li> <li>fees and costs for safe custody services to the extent that they are not notified to the client elsewhere; and</li> <li>if the firm intends to pool a safe custody financial instrument with that of one or more other clients, notification of its intention; in addition, if the client is a retail client, an explanation of the effects of pooling to that retail client.</li> </ol>
31	<p>We will enquire and obtain evidence on a a sample basis as to whether the statements produced by or on behalf of the Company included a list of all safe custody assets held for the client and: (CL-2.4.2)</p> <ol style="list-style-type: none"> <li>identified any safe custody financial instruments registered in the clients' own name separately from those registered in any other name;</li> <li>identified any safe custody assets which are being used as collateral or have been pledged to third parties, separately from any custody assets;</li> <li>showed the market value of any collateral held, as at the date of the statement;</li> <li>for a retail client, based the statement on either trade date or settlement date information for cash balances and safe custody investment and notify the basis to the retail client; and</li> <li>detailed the movements of each client asset.</li> </ol>
	<i>Third Party Custodians (CL 2.5)</i>
32	<p>Where third party custodians are used, we will enquire and obtain evidence that the Company requires the custodian to make it clear in the title of the account that the safe custody financial instrument belongs to one or more clients of the Company.(2.5.1)</p>



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<i>Sr. No.</i>	<i>Procedure</i>
33	<p>Where third party custodians are used, we will enquire and obtain evidence that the Company has implemented an appropriate risk assessment for the third party custodian before it has recommended the third party custodian to a retail client (CL-2.5.2)</p> <p>In particular, we will enquire and obtain evidence that it establishes and maintains a system for assessing the appropriateness of its selection of the custodian and to assess the continued appointment of that custodian periodically in the relevant market. We will also enquire and obtain evidence of whether the Company makes and retains a record of the grounds on which it satisfies itself as to the appropriateness of its selection or, following a periodic assessment, continued appropriateness of the custodian. (CL-2.5.3)</p> <p>We will also enquire and report as to what of the following the Company takes into account in undertaking an appropriate risk assessment of the custodian: (CL-2.5.4)</p> <ol style="list-style-type: none"> <li>the expertise and market reputation of the custodian, and once a safe custody financial instrument has been lodged by the firm with the custodian, the custodian's performance of its services to the Company;</li> <li>the arrangements for holding and safeguarding financial instruments;</li> <li>an appropriate legal opinion as to the protection of custody assets in the event of insolvency of the custodian;</li> <li>current industry standard reports;</li> <li>whether the custodian is regulated and by whom;</li> <li>the capital or financial resources of the custodian;</li> <li>the credit rating of the custodian; and</li> <li>any other activities undertaken by the custodian and, if relevant, any affiliated company.</li> </ol>
	<i>Record Keeping (CL 2.6)</i>
34	We will enquire and obtain evidence as to whether the Company maintains records of the custody assets which it holds or receives, or arranges for another to hold or receive, on behalf of its client and if it retains these records for a period of ten years after the account is closed. (CL-2.6.1)
35	<p>We will enquire and obtain evidence on a sample basis as to whether the client account records as a minimum include the following details: (CL-2.6.2)</p> <ol style="list-style-type: none"> <li>the name of the account;</li> <li>the account number;</li> <li>type of account;</li> <li>type of asset;</li> <li>the location of the account;</li> <li>whether the account is currently open or closed;</li> <li>details of assets held and movements in each account; and</li> <li>the date of opening and where applicable, closure</li> </ol>
	<i>Collateral</i>
	<i>General Requirements (CL 3.1)</i>
36	We will enquire and obtain evidence that the Company establishes and maintains appropriate systems and controls when it receives or holds assets as collateral (CL-3.1.3) in connection with securing a client obligation to it. (CL-3.1.1)




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<i>Sr. No.</i>	<i>Procedure</i>
	<i>Third Parties (CL 3.2)</i>
37	We will enquire and obtain evidence that the Company only permits third party to hold client's collateral if: (CL-3.2.1) <ul style="list-style-type: none"> <li>a. the Company has reasonable grounds to believe that the third party is suitable to hold that collateral; and</li> <li>b. the Company has demonstrated to the CBB's satisfaction the grounds upon which it considers the third party to be suitable to hold clients' collateral.</li> </ul>
38	We will enquire and obtain evidence that for such assets the Company had notified the third party before client assets were deposited with them that: (CL-3.2.2) <ul style="list-style-type: none"> <li>a. the collateral does not belong to the Company; and</li> <li>b. the third party is not entitled to claim any lien or right of retention or sale over the collateral except to cover the obligations of the client which gave rise to that deposit, pledge, charge or security arrangement or any charges relating to the administration or safekeeping of the collateral.</li> </ul>
	<i>Record Keeping (CL 3.3)</i>
39	If the Company receives or holds client assets under a collateral arrangement and exercises its right to treat the assets as its own, we will enquire and obtain evidence that the Company maintained adequate records to enable it to meet any future obligations including the return of equivalent assets to the client (CL-3.3.1)
40	We will enquire and obtain evidence that the Company send to its clients a statement listing such assets and their market value as at the date of reporting, at least every six months or at other intervals as agreed in writing with the client. (CL-3.3.3)
41	We will enquire and obtain evidence that the statement was dispatched to the client within one calendar month of the date of reporting.(CL-3.3.4)
	<i>Mandates (CL-4)</i>
	<i>Mandates – (Systems and Controls)</i>
42	Where the Company has a written mandate from a client under which it may control a client's assets or liabilities in the course of, or in connection with, the investment firm licensee's regulated investment services, we will enquire and obtain evidence that the Company establishes and maintains adequate records and internal controls in respect of its use of the mandates, which should include: (CL-4.1.2) <ul style="list-style-type: none"> <li>a. an up-to-date list of the mandates and any conditions placed by the client or the Company's management on their use;</li> <li>b. a record of all transactions entered into using the mandates, and internal controls to ensure that they are within the scope of authority of the person and the Company entering into the transaction;</li> <li>c. the details of the procedures for the giving and receiving of instructions under the authority; and</li> <li>d. where the Company holds a passbook or similar documents belonging to the client, internal controls, for the safeguarding (including against loss, unauthorized destruction, theft, fraud or misuse) of any passbook or similar document belonging to the client held by the Company.</li> </ul>



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<i>Sr. No.</i>	<i>Procedure</i>
	<i>Client Money Distribution (CL-5)</i>
	<i>Third Party Related Distribution (CL 5.2)</i>
43	Where a third party holding client money becomes insolvent (“third party related distribution event”) we will enquire and obtain evidence that the Company has showed proper care: (CL-5.2.2) <ul style="list-style-type: none"><li>a. in the selection of that third party;</li><li>b. when monitoring the performance of the third party; and</li><li>c. when notifying clients in its terms of business the distribution rules applicable in the event of a third party distribution event.</li></ul>
44	Following the occurrence of a “third party-related distribution event” in relation to a designated bank or eligible third party, we will enquire and obtain evidence that: (CL-5.2.3) <ul style="list-style-type: none"><li>a. the Company makes and retains a record of each client’s share of the shortfall and notified the amount of the shortfall to the affected clients (except where the Company chooses to make good the shortfall);</li><li>b. client money received after the third party-related distribution event:<ul style="list-style-type: none"><li>i. was not transferred to the designated bank or eligible third party which has suffered the third party-related distribution event unless this was on the specific instructions of the client (given after the occurrence of the third party related distribution event) in order to settle an obligation of that client to that designated bank or eligible third party; and</li><li>ii. was subject to (i) placed in a separate client bank account that was opened with a different designated bank after the third party related distribution event had occurred.</li></ul></li></ul>

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### **Basis of Opinion**

Because the above procedures do not constitute an audit or a review made in accordance with the International Standards on Auditing or International Standards on Review Engagements, we do not express any audit or review assurance on the information reported as required under Module CL (Client Assets). Had we performed additional procedures or had we performed an audit or review of the report in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and is only for the information of the Company and the CBB. This report should not be used for any other purpose or to be distributed to any other parties. This report relates only to the procedure for the year ended 31 December 20XX.

Name of auditor

Date